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WARSAW ENTERPRISE INSTITUTE
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00-024 WARSAW

SUMMARY

We present the seventh report in the Warsaw Enterprise Institute's series "Opening Balance", in which we diagnose Poland's economic development in comparison with other European countries, asking the key question: when will Poland catch up with the most developed countries of the continent, especially Germany? We analyse the state of our economy in terms of GDP growth, debt, foreign trade dynamics and Poland's attractiveness as a place to live.

This report is a kind of balance sheet of our achievements with which we will open 2022. It takes into account the changes that took place as a result of the pandemic and the effects of countries' policies to limit the supply of goods and services on the market (i.e. lockdowns). Due to the dynamics of events related to the pandemic, it was sometimes decided to supplement the analysis with quarterly (economic growth) or even monthly (inflation) data. The geographical scope of analyses covers all European Union countries and world leaders in terms of GDP, exports or imports. Particular attention was paid to countries that are in a similar situation to Poland, either in terms of the value of certain indicators in earlier years or in terms of the structural situation (systemic transformation). In this report we already have at our disposal, in most cases, data for 2020.

In the last decade (since 2011), Poland was the third fastest growing EU economy after Malta and Ireland, and although in 2020 it recorded a recession, it was relatively mild compared to other countries. In contrast, GDP per capita in purchasing power parity terms in Poland rose from 73% of the EU average in 2019 to 76% in 2020. - Meanwhile, the same indicator increased in Germany by 1 p.p. (to 121 percent). If the pace of catching up with Germany over the past decade were to continue (about 1 p.p. per year in the case of Poland), this would mean that we could catch up with that country in 34 years.

The Polish economy has proved remarkably resilient to the pandemic crisis compared to other economies. While others have struggled with falling demand for their goods, Poles have exported mightily. Never before in history has the value of Polish exports been so high - in 2020 it reached USD 271 billion. By maintaining a high growth rate, we may soon overtake India, which is much larger in geographical and population terms. We are also an important importer, 20th in the world, ahead of Russia, among others.

So it is no longer surprising that more people immigrate to Poland than emigrate from it. In last year's report, we observed a positive migration balance for the first time - in 2018, 24.3 thousand more people came to our country than left it. In 2019. (the latest data) this situation deepened: the migration balance was already 46.1 thousand people. This indicates very well the attractiveness of our country for the population of other countries and our own. Unfortunately, the increased influx of population does not translate into an increased interest in obtaining citizenship of our country.

Unfortunately, phenomena such as rising debt and high inflation, which devalues part of the wealth earned by Poles, prevent us from concluding that Poland was able to turn the crisis time of the pandemic to its advantage. Yes, in the pre-pandemic year Poland's public debt

was at a safely low level of 45.6 per cent of GDP, which gave plenty of room for manoeuvre at a time when more state spending was really needed, but it has now reached 57 per cent, and there are no ideas - apart from raising taxes - as to how to pay it off. Central bank policy, which was supposed to ease the burden of debt, has now become a serious social problem, as it has translated into high inflation. This in turn tends to affect the poorest people the most - hence it is no wonder that the government has prepared an "anti-inflation shield". However, it may contribute to higher inflation in the coming months.

We concluded last year's report by writing that "the outlook for 2021 is therefore not stable and raises investment risks - in view of the inevitable future rise in interest rates". Interest rates have indeed risen, not only those set by the central bank but also, more importantly, those set by the market, with the result that yields on Polish bonds have risen. This means that investors are looking at the situation in Poland with greater anxiety than a year ago.

The good news is that our net foreign debt in 2020 already represented only 16% of GDP, which was lower than in previous years (21% in 2019). To some extent, this reduces the risk of our country's external insolvency and the possibility of it being influenced by external factors, such as perturbations on global currency markets.2022 will be a time of test - whether the government decides to free the Polish economy so that it heals its pandemic wounds faster, or whether it decides to tighten the regulatory-fiscal screw. The "Polish Deal" leads us to believe that we are dangerously close to the second scenario.

Key takeaways:

- Poland is one of the largest, but not yet one of the richest economies. In 2020. Poland was the 23rd largest economy in the world in US dollars and the 20th largest in the world in purchasing power parity terms. However, in terms of wealth per capita (GDP per capita PPP) it was only 43rd in the world and sixth from last in the European Union.

- Our calculations show that... there was no "miracle". Counting from 1990, Poland's economy grew slower than the world average and was 81st in the world in terms of total economic growth over that period.

- And we are still far from Ireland. Although Poland has been the sixth fastest-growing EU economy over the past decade (2011-2020) (ranking fifth in 2019), it was only 70th in the world over that period, not even coming close to the pace of Ireland - the European champion for three decades.

- Nevertheless, we could be as rich as Germany in 2035.At this rate of development, we would catch up with Germany in terms of level of development in about 34 years. However, the rate of convergence has increased in recent years, and if we maintain that of the last five years, we will catch up with the German economy around 2035.

- In the pandemic we were breaking records in exports. In the pandemic, the real engine of the Polish economy was exports. In 2020, Poland was 22nd in the world in terms of export value, retaining this place for the fifth year in a row. Never before in history has the value of Polish exports been so high. The growing size of our economy is also confirmed by the 20th largest import in the world by value. As a result of the policy of closing down and freezing large parts of the economies, most EU countries saw their exports fall in 2020. Meanwhile, in Poland, it grew and helped cushion some of the economic hardship during the pandemic.

- And in the trade surplus. In 2020. Poland was ranked 25th in the world in terms of trade surplus (in 2019 it was 44th), which is a great success considering the long years of trade deficit in our country. In 2019, Poland was the 11th largest exporter from the EU, and in 2020 it moved up to ninth place.

- We had the best trade with EU countries. It is easier for Polish exporters to sell inside the EU than outside. In 2020. Poland ranked high, 5th in the EU in terms of the amount of surplus in intra-EU trade, when before 2013 we had deficits. This shows how important access to the EU internal market is for our country's development - in the event of a possible exit from the EU (and, among other things, the introduction of customs duties on our goods), our economy would lose a lot.

- We also had a stable investment position. Also in terms of net international investment position (NIIP), Poland's situation is good and stable, we see an improvement in Poland, which limits the risk of crisis (although most other countries of systemic transformation, which entered the EU, did it more effectively).

- And our migration balance has been growing. Which means that Poland is attractive... The attractiveness of living in Poland was approximated by migration indicators. The latest data for the whole EU was available for 2019. At that time, Poland was in fifth place in the EU as a destination for long-term immigration. The number of emigrants from Poland - also fifth in the EU - is decreasing. Calculating the difference between these figures, we get the migration balance. A comparison with other countries shows that we are in eighth place in the EU.

- ...but not as a country of permanent settlement. However, this does not translate into: citizenship applications (12th in the EU in 2019, less than 1% of all newly granted citizenships of EU countries, although we are the most attractive among the new EU member states), and asylum applications (15th in the EU in 2020, only 0.6% of all asylum applications in the whole EU; interest in our country in this respect is declining - even Bulgaria and Romania were more attractive). Migrants are therefore not a real "threat" to our country - their target is the richer EU countries, as the statistics clearly show.

- However, we cannot rest on our laurels, because: however, threats to growth are emerging - high inflation, rising debt, weakening private investment.

- The pandemic in the economy continues. The 2020 recession was weaker than the one after the previous financial crisis, which then led to the so-called European debt crisis (highlighting the problems of the so-called PIGS countries). Polish economic growth was the weakest in nearly 30 years. The year 2021 shows that this is not the end of the repercussions of the authorities' pandemic policy.

- Growth in 2021 is uncertain. After the high rebound of economies in Q2 2021. (Poland's growth was only 18th in the EU27), it is seen weakening in the third. Meanwhile, inflation accelerated across the EU, but for most of 2020 and 2021 the EU record-holder in this respect was Poland.

- Moreover, we are close to the debt threshold. The average debt of the EU's transition countries is rising steadily. In 2020, the public debts of EU countries increased by an average of 20 percent (in relation to their GDP), and in Poland more - by approx. 25 percent). If the situation from the previous financial crisis were to repeat itself, the 60% of GDP limit would be at risk.

- Although we are less dependent on foreign creditors. A positive trend is the reduction of the share of foreign debt: from 21% of GDP in 2019 to 16% of GDP next year, because this reduces the risk of a debt crisis. Other new EU member states have also done the same, although they have mostly been more successful in this respect (only two of them have been less successful in reducing this debt than Poland).